

HOUSE BILL REPORT

HB 1232

As Reported by House Committee On: Agriculture & Natural Resources

Title: An act relating to defining commercial agricultural purposes to include current farming practices and activities related to the raising, harvesting, feeding, breeding, managing, selling, care, or training of a farm product.

Brief Description: Defining commercial agricultural purposes to include current farming practices and activities related to the raising, harvesting, feeding, breeding, managing, selling, care, or training of a farm product.

Sponsors: Representatives Hinkle, Quall, Bailey, Ross, Cody, Newhouse, DeBolt, Herrera, Moeller, Nelson, Warnick, Shea, Morrell, Smith, Kristiansen, Pearson and Schmick.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 2/13/09, 2/20/09 [DPS].

Brief Summary of Substitute Bill

- Expands the definition of "commercial agricultural purpose" for tax assessment purposes.
- Applies retroactively to taxes levied for collection in 2008, as well as prospectively.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Blake, Chair; Jacks, Vice Chair; Chandler, Ranking Minority Member; Smith, Assistant Ranking Minority Member; Kretz, Lias, McCoy, Nelson, Ormsby, Pearson, Van De Wege and Warnick.

Staff: Anna Jackson (786-7190)

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

For tax purposes, farm and agricultural land in Washington is valued on the basis of its current value for use, rather than on its market value. This concept is known as the Current Use Program, which dictates that assessment practices must be designed to ensure that open space lands are available for the production of food, fiber, and forest crops, as well as to ensure the use and enjoyment of natural resources and scenic beauty.

Valuation based on value for use means that only the use for which the property is *currently* applied is considered by the assessor, and not the *potential* uses of the property. The true and fair value of farm and agricultural land is determined by considering the earning or productive capacity of comparable lands from crops typically grown in the area, averaged over at least five years, and then capitalized at indicative rates. If land is classified as farm and agricultural land, it qualifies for the Current Use Program and a reduced valuation.

"Farm and agricultural land" is currently defined under statute as any parcel of land, 20 acres or more, that is devoted primarily to the production of livestock or agricultural commodities for commercial purposes, and any land, less than 20 acres, devoted primarily to agricultural uses with specified gross income requirements. "Commercial agricultural purpose," in turn, is defined by administrative rule as the use of land on a continuous and regular basis in a manner that demonstrates that the owner or lessee is engaged in and intends to obtain, through lawful means, a monetary profit from cash income received for certain commercial agricultural activities on the land, including:

- raising, harvesting, and selling crops;
- feeding, breeding, managing, and selling livestock, poultry, fur-bearing animals, or honey bees, or any products from these animals;
- dairying or selling dairy products;
- animal husbandry;
- aquaculture;
- horticulture;
- participating in a government-funded crop reduction or program to set aside acreage;
or
- cultivating Christmas trees or short-rotation hardwoods.

Summary of Substitute Bill:

The current definition of "commercial agricultural purpose" contained in administrative rule is usurped with the following statutory definition: the commercial raising, harvesting, feeding, breeding, managing, selling, care, or training of an agricultural product or agricultural commodity where the owner or lessee intends to obtain, through lawful means, a monetary profit from cash income. "Agricultural product" and "agricultural commodity" in this context means products from plants and animals that incorporate the use of food, feed, fiber, or fur that are useful to humans, such as dairy products, poultry products, livestock, fruits, seeds, vegetables, flowers. In addition, cultivated land with an investment of at least \$100 per acre prior to planting or maturity with an expectation of harvest within 15 years is included.

A state agency, county, or municipality may not impose a more restrictive definition of "commercial agricultural purpose" or any other defined term for tax assessment purposes.

The definition of "commercial agricultural purpose" applies retroactively to taxes levied for collection in 2008, as well as prospectively.

The term "agricultural uses" is replaced with the term "commercial agricultural purposes" throughout the definitions section of the current use statute.

Substitute Bill Compared to Original Bill:

The substitute bill replaces the term "farm product" in the definition of "commercial agricultural purpose" with "agricultural product or agricultural commodity," which is defined similarly to the statutory definition of "farm product" but is different in two respects: (1) it excludes trees; and (2) it includes cultivated land with an investment of at least \$100 per acre prior to planting or maturity with an expectation of harvest within 15 years.

The substitute bill also adds a severability clause.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) This bill addresses an important issue related to the taxation of agricultural land and open spaces; providing a tax break for these lands is crucial in preserving Washington's growing equine industry. The horse industry in Washington consists of approximately 250,000 horses and is the eleventh largest in the country. The industry involves and supports an extensive network of suppliers and businesses. In King County alone, for instance, the industry provides approximately 3,200 jobs. The continued viability of the horse industry in Washington depends on the existence of horse farms, and this bill will increase the chances that these farms will be able to afford to continue to operate.

Anything that can be done to preserve Washington's remaining open spaces and agricultural lands should be done, both for the economic and aesthetic values that these lands provide for all Washington residents. The Open Space Program has operated for more than 30 years and provides numerous public benefits, such as watersheds for run-off from urban areas, habitat for native species, and an enhanced quality of life for all Washingtonians. Farmers traditionally have been recognized as excellent stewards of the land, and this bill will serve to further encourage sound management and oversight of the state's agricultural lands.

While the Current Use Program has not changed since its passage more than 30 years ago, the way it is interpreted is now subject to change. Horse farm owners should not be treated differently than other people in the agricultural industry, because horses are a part of the agricultural industry. This bill merely attempts to clarify that the Current Use Program does, in fact, include horse farms, and will not significantly change the way the Current Use Program is applied.

(Opposed) Horse farms are more appropriately categorized under the Open Space Program for tax purposes, not the Current Use Program, and exemptions or deferrals under the Open Space Program have historically been narrowly construed. The Current Use Program has been applied without problems since its creation in the 1960s; no urgent need exists to justify a change in its application.

Persons Testifying: (In support) Representative Hinkle, prime sponsor; Gloria Sferra; Betty Loukapela, Ken Starr, and Lisa Fite, Save Our Farms; Gerry Magnuson; Gail Rase; Tom Pasma and Gunnar Otness, American Quarter Horse Association; Dana Kapela; Monty Male; Margaret Nicolino; Dan Wood, Washington Farm Bureau; and Ron Averill, Lewis County.

(Opposed) Robert Carlton, Washington Association of County Officials.

Persons Signed In To Testify But Not Testifying: None.